

KEYSPAN ENERGY DELIVERY NEW ENGLAND
D.T.E. 05-68

FIRST SET OF INFORMATION REQUESTS OF THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY TO
KEYSPAN ENERGY DELIVERY NEW ENGLAND

DTE 1-9

Date: February 1, 2006

Respondent: Elizabeth D. Arangio

Q. Please provide a narrative description explaining the way KeySpan makes its daily and monthly gas purchase decisions.

A. Since 1999, the Company has outsourced the resource portfolio to an asset manager that has primary responsibility for purchasing and delivering gas supplies to meet customer requirements at the citygate. Gas supplies purchased by the portfolio manager are priced based on a "pricing hierarchy." Under the pricing hierarchy, commodity charges are calculated based on resource "tiers." The tiers are set to reflect (1) the dispatch priorities of the physical assets held through the resource contracts, and (2) the market indices that correlate to the receipt points associated with those contracts.

The Company retains management of gas supplies associated with certain long-term Canadian contracts (up to 71,954 MMBtu/day under contracts with Alberta Northeast Gas Limited, BP Canada Energy Company, Nexen Marketing and the Imperial Oil Resources), vapor/liquid contracts with Distrigas of Massachusetts Corporation and the on-system LNG facilities.

Within this framework, there are three steps to the daily gas-purchasing process. These steps are as follows:

- (1) Based on the Company's planning algorithms, the Company determines how much gas is needed for the next Gas Day and establishes the tiers from which these supplies will be drawn for purposes of the pricing hierarchy. The Company conveys information regarding the daily requirement and the established tiers to the asset manager.
- (2) Based on this information, the asset manager handles the full range of day-to-day operational requirements, including the procurement of gas supplies, the daily scheduling and nominating of supplies, as

well as any and all transactions undertaken to derive value from the portfolio assets.

- (3) The Company dispatches the gas delivered to the citygate by the asset manager in conjunction with on-system resources under the management of the Company.

The Gas Supply Planning Group, in conjunction with the Gas Control Group utilizes a daily Game Plan to determine the daily citygate requirements. The Game Plan is an Excel spreadsheet that utilizes regression equations of base load plus heat load coefficients and forecasted degree day data for KeySpan's five New England divisions to calculate a short-term demand forecast. The forecast is verified on a regular basis and, as needed, adjusted in order to align with the most recent actual experienced data.

The demand-side of the Game Plan is updated each morning by Gas Control. In addition, Gas Control populates the supply side of the Game Plan with information provided by the Gas Supply Planning and Customer Choice Groups the night before. Every weekday morning, the groups meet to discuss the supply needs for the current day as well as the following gas day. Prior to a weekend or holiday, the meeting will also address the planning for the following several days. At this meeting, the groups discuss any issues and strategy pertinent to putting together the daily sequence of supplies to be dispatched (the "daily setup"). This planning is done in time to execute prior to upstream pipeline nomination deadlines. As noted in Step #1, above, Gas Supply Planning also develops an appropriate order of dispatch (*i.e.*, among pipeline supply, underground-storage supply, supplemental resources or other purchased resources) on a daily basis.

Monthly baseload volumes are conveyed to the asset manager in June of each year for the subsequent peak season based on normal winter requirements. Differences between the monthly baseload amounts and actual requirements are "swing" volumes that are purchased on an as-needed (daily) basis by the asset manager or are met by the use of Company-managed resources.